

McNAIRY COUNTY AIRPORT AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

**MCNAIRY COUNTY AIRPORT AUTHORITY
INDEPENDENT AUDITOR'S REPORTS, FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Table of Contents	1
Roster of Board of Directors	2
FINANCIAL SECTION	
Independent Auditor's Report	3 – 4
Management's Discussion and Analysis	5 – 6
Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Financial Statements	10 – 13
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards and State Financial Assistance	14
Schedule of Long-Term Debt	15
INTERNAL CONTROL AND COMPLIANCE SECTION	
Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	16 – 17

**MCNAIRY COUNTY AIRPORT AUTHORITY
ROSTER OF BOARD OF DIRECTORS
JUNE 30, 2013**

Robert Sibley – Chairman

Ted Moore

Troy Moore

David Robinson

Mike Smelser



Independent Auditor's Report

To the Board of Directors
McNairy County Airport Authority
Selmer, Tennessee

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the McNairy County Airport Authority (the Authority), a component unit of McNairy County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 9, the Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No.*

14 and No. 34); Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position*, which became effective for the year ended June 30, 2013. The Authority early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* which has an effective date of June 30, 2014.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Adwin : Associates, PLLC

November 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of McNairy County Airport Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2013.

USING THIS ANNUAL REPORT

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when the cash is received or paid. These statements provide information about whether the entity is better off or worse off as a result of the year's activities. The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of the Authority during the year.

Net position is the difference between the Authority's assets and liabilities. Over time, increases or decreases in net position provide one indicator of financial health.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes to the financial statements can be found on pages 10 – 13.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the Authority. This supplementary information can be found on pages 14 and 15 of this report.

Comparative Data

Statement of Net Position

	2013	2012
Current and other assets	\$ 195,954	\$ 139,481
Restricted assets	90,723	12,812
Capital assets	<u>2,401,780</u>	<u>2,462,843</u>
Total Assets	<u>2,688,457</u>	<u>2,615,136</u>
Long-term liabilities	162,349	161,515
Other liabilities	<u>76,381</u>	<u>58,296</u>
Total liabilities	<u>238,730</u>	<u>219,811</u>
Net Position		
Net investment in capital assets	2,239,431	2,290,816
Restricted for construction	90,723	12,812
Unrestricted	<u>119,572</u>	<u>91,697</u>
Total Net Position	<u>\$ 2,449,726</u>	<u>\$ 2,395,325</u>

The changes in the Authority's net position are described below:

	<u>2013</u>	<u>2012</u>
Revenues:		
Charges for services	\$ 59,137	\$ 75,376
Rent	82,795	97,907
Miscellaneous	993	3,153
Bad debt expense	(810)	(149)
Total Revenues	<u>142,115</u>	<u>176,287</u>
Expenses:		
Airport	<u>321,541</u>	<u>332,174</u>
Operating income (loss)	(179,426)	(155,887)
Nonoperating revenue	<u>153,128</u>	<u>58,779</u>
Increase(Decrease) in net position before capital contributions	<u>(26,298)</u>	<u>(97,108)</u>
Capital contributions	<u>80,699</u>	<u>-</u>
Change in net position	54,401	(97,108)
Net position at beginning of year	<u>2,395,325</u>	<u>2,492,433</u>
Net position at end of year	<u>\$ 2,449,726</u>	<u>\$ 2,395,325</u>

- The Airport had an increase in net position of \$54,401 compared to a decrease of \$97,108 in the prior year. This difference is primarily due to the change in capital contributions from one year to the next.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The airport had capital asset additions of \$89,902 during the year and accumulated depreciation increased by \$150,965. See additional disclosures in Note 4.

At June 30, 2013, the Authority had \$162,349 in outstanding long-term debt compared to \$172,027 last year. See additional disclosures in Note 5.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

We do not anticipate any economic factors which would have a material effect on operations for the next fiscal year.

CONTACTING THE AUTHORITY MANAGEMENT

This financial report is designed to provide citizens, taxpayers and creditors with a general overview of the Authority's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chris Tull at 2281 Airport Road, Selmer, Tennessee 38375.

Chris Tull
Airport Manager

MCNAIRY COUNTY AIRPORT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current assets

Cash	\$ 143,262
Restricted assets - cash	90,723
Grant receivables	23,959
Miscellaneous receivables	844
Prepaid insurance	7,613
Inventory	20,276
Total current assets	<u>286,677</u>

Noncurrent assets

Capital assets

Land	91,331
Airport	3,531,806
Building	196,238
Equipment	230,984
	<u>4,050,359</u>
Construction in progress	71,610
Less: accumulated depreciation	<u>(1,720,189)</u>
Total noncurrent assets	<u>2,401,780</u>

Total assets	<u>2,688,457</u>
--------------	------------------

LIABILITIES

Current liabilities

Accounts payable	31,856
Accrued expenses	3,826
Unearned revenue - rent	40,700
Current portion of note payable	11,199
Total current liabilities	<u>87,581</u>

Noncurrent liabilities

Notes payable after one year	<u>151,150</u>
Total liabilities	<u>238,731</u>

NET POSITION

Net investment in capital assets	2,239,431
Restricted for construction	90,723
Unrestricted	<u>119,572</u>
Total net position	<u>\$ 2,449,726</u>

MCNAIRY COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES

Fuel sales	\$ 59,137
Hangar and building rent	82,795
Miscellaneous income	993
Bad debt expense	(810)
	<hr/>
Total operating revenues	142,115

OPERATING EXPENSES

Salaries	61,786
Payroll taxes	5,298
Employee insurance	5,106
Legal and accounting	5,200
Office expense	1,559
Credit card processing fees	1,679
Maintenance	9,446
Inspections	930
Utilities	7,961
Insurance	9,563
Depreciation	150,965
Telephone	4,937
Purchased fuel	51,292
Supplies	3,902
Dues and subscriptions	136
Meetings and conferences	591
Advertising	962
Security	228
	<hr/>
Total operating expenses	321,541

OPERATING INCOME (LOSS) (179,426)

NONOPERATING REVENUES (EXPENSES)

Appropriations from McNairy County	152,750
State of Tennessee - Department of Transportation	10,648
Interest income	44
Interest expense	(10,314)
	<hr/>
Total nonoperating revenue	153,128

INCOME (LOSS) BEFORE CONTRIBUTIONS (26,298)

CAPITAL CONTRIBUTIONS 80,699

CHANGE IN NET POSITION 54,401

NET POSITION - BEGINNING OF YEAR 2,395,325

NET POSITION - END OF YEAR \$ 2,449,726

**MCNAIRY COUNTY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 138,574
Cash payments to suppliers for goods and services	(60,015)
Cash payments to employees for services	<u>(71,907)</u>

NET CASH PROVIDED BY

(USED FOR) OPERATING ACTIVITIES	<u>6,652</u>
--	--------------

**CASH FLOWS FROM NONCAPITAL AND
FINANCING ACTIVITIES:**

Intergovernmental operating grants	<u>163,398</u>
------------------------------------	----------------

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Acquisition and construction of capital assets	(89,902)
Capital grants	56,740
Principal payments on long-term debt	(9,678)
Interest payments	<u>(10,314)</u>

**NET CASH PROVIDED BY (USED FOR) CAPITAL
AND RELATED FINANCING ACTIVITIES**

<u>(53,154)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest earned	<u>44</u>
-----------------	-----------

NET INCREASE IN CASH

116,940

CASH - BEGINNING OF YEAR

117,045

CASH - END OF YEAR

\$ 233,985

**RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO
NET CASH (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	\$ (179,426)
-------------------------	--------------

Adjustments to Reconcile Operating Income To Net Cash

Provided by Operating Activities:

Depreciation and amortization	150,965
-------------------------------	---------

Changes in Assets and Liabilities:

(Increase) decrease in inventories	5,875
(Increase) decrease in other receivables	(844)
(Increase) decrease in prepaid insurance	1,484
Increase (decrease) in accounts payable	31,856
Increase (decrease) in accrued expenses	283
Increase (decrease) in unearned revenues - rent	<u>(3,541)</u>

NET CASH (USED FOR) OPERATING ACTIVITIES

\$ 6,652

MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1. GENERAL INFORMATION

A. GASB Conformity

The Authority complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

B. Financial Reporting Entity

The McNairy County Airport Authority (the Authority) is a component unit of McNairy County, Tennessee, and is governed by a board of directors appointed by the county government. The Authority is responsible for financing, developing, and operating McNairy County's public airport. The County approves the operating budget of the Authority and has provided regular operating subsidies to the Authority in the past.

C. Fund Accounting

The accounts of the Authority are organized on the basis of funds. The operations of funds are accounted for with a separate set of self-balancing accounts that comprise their assets, liabilities, fund equity, revenues, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accounts in the financial statements in this report fall under one broad fund category as follows:

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Revenues are recognized when earned and expenses are recognized when incurred. The Authority has defined non-operating revenues to be revenues that are not generated from the daily operations. Capital contributions are non-operating revenues.

B. Capital Assets

All capital assets of the Authority are recorded at original cost. Expenses that materially increase values or capacities, or extend useful lives of these assets are capitalized while expenses for maintenance and repairs are charged to operations as incurred. Gains and losses from the sale of capital assets are reflected in operations and the asset accounts and related allowances for depreciation are reduced. These depreciable capital assets are being depreciated over various estimated useful lives on a straight-line basis. Any interest incurred in preparing or acquiring a capital asset for use is included in its cost.

MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

C. Cash Equivalents

Cash and cash equivalents include demand deposit accounts. Restricted cash consists of deposits held in an escrow account to fund the Authority's local matching requirement for the ongoing authority grant projects and deposits in other local bank accounts for the retainage due on several projects.

D. Inventory

Inventory consists of fuel. Cost is determined using the first-in first-out method.

3. CASH AND INVESTMENTS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Tennessee or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Authority must have a written collateral agreement approved by the board of directors or loan committee.

The Authority's investment policies are governed by State statute. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit and savings accounts. Collateral is required for demand deposits, certificates of deposits and repurchase agreements at 105% of all amounts not covered by federal deposit insurance.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority requires any bank deposits to be insured by the Federal Deposit Insurance Corporation and any deposits in excess of FDIC coverage shall be collateralized by acceptable securities pledged for said purpose and an agreement between the Bank of Deposit and the Authority shall be executed. As of June 30, 2013, the Authority's bank balances were not exposed to custodial credit risk because they were insured and collateralized.

The Authority also has \$90,723 in an escrow account with the State of Tennessee.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance 7/1/2012	Additions/ Adjustments	Retirements/ Adjustments	Balance 6/30/2013
Capital assets not being depreciated				
Land	\$ 91,331	\$ -	\$ -	\$ 91,331
Construction in progress	-	71,610	-	71,610
Total capital assets not being depreciated	91,331	71,610	-	162,941
Capital assets being depreciated				
Airport	3,520,826	10,980	-	3,531,806
Building	196,238	-	-	196,238
Equipment	208,792	7,312	-	216,104
Vehicles	14,880	-	-	14,880
Total capital assets being depreciated	3,940,736	18,292	-	3,959,028
Less accumulated depreciation for:				
Airport	(1,357,461)	(134,306)	-	(1,491,767)
Building	(47,425)	(4,906)	-	(52,331)
Equipment	(149,458)	(11,753)	-	(161,211)
Vehicles	(14,880)	-	-	(14,880)
Total accumulated depreciation	(1,569,224)	\$ (150,965)	\$ -	(1,720,189)
Total capital assets, net	\$ 2,462,843			\$ 2,401,780

MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

5. LONG-TERM DEBT

a. Description of Individual Bond Issues and Loans Outstanding

Summarized below are the Authority's individual bond and loan issues which are outstanding at year end:

	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Current Principal Requirement</u>
Notes:			
Capital Outlay Note	\$ 162,349	6.38%	\$ 11,199

b. Summary of Principal and Interest Requirements – All Debt

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 11,199	\$ 10,016
2015	11,931	8,285
2016	12,710	8,505
2017	13,541	7,675
2018	14,426	6,790
2019-2023	87,560	18,515
2024	10,982	230
	<u>\$ 162,349</u>	<u>\$ 60,016</u>
Less:		
Payable within one year	<u>11,199</u>	<u>10,016</u>
Due after one year	<u>\$ 151,150</u>	<u>\$ 50,000</u>

c. Changes in Outstanding Debt

	<u>Balance 7/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2013</u>
Business-Type Activities				
Revenue Bonds	\$ 172,027	\$ -	\$ 9,678	\$ 162,349
	<u>\$ 172,027</u>	<u>\$ -</u>	<u>\$ 9,678</u>	<u>\$ 162,349</u>

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims have not exceeded this commercial coverage in any of the past three years.

7. NET POSITION FLOW ASSUMPTION

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which resources are considered applied. It is the Authority's policy to considered restricted – net position to have been depleted before unrestricted – net position is applied.

**MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

Net position is displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

8. UNEARNED REVENUES - RENT

The hospital prepaid hangar rent for fifteen years to aid in construction of the new hangar. The Authority has recorded the appropriate amount as deferred rent and is recognizing the rent revenue as it is earned.

9. ACCOUNTING CHANGES

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position* became effective for the year ended June 30, 2013. The Authority early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* which has an effective date of June 30, 2014.

GASB Statement No. 61 amends Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units in the financial reporting entity to ensure that the reporting entity includes only organization for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Net Assets was renamed to a Statement of Financial Position.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

10. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Authority has significant commitments on two construction projects.

The first is a runway maintenance overlay project that was in progress at yearend. This project has estimated costs of \$1,375,000. As of June 30, 2013, the remaining cost on this project is approximately \$1,341,200 with 95% funding coming from State grant funds and the remaining 5% from the Authority's local share which is in an escrow account with the State. The Authority had \$33,800 recorded as construction in progress for this project at June 30, 2013.

The second is a fuel farm project. This project has estimated costs of \$440,000. It is to be funded with \$418,000 from grant funds and \$22,000 from the Authority's local share which is in an escrow account with the State as of June 30, 2013. The Authority had \$37,810 recorded as construction in progress for this project at June 30, 2013.

MCNAIRY COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Contract/Project Number	Accrued Revenue at 7/1/2012	Receipts	Disbursements/ Expenditures	Accrued Revenue at 6/30/2013
<u>FEDERAL AWARDS</u>						
Department of Transportation Aeronautics Division - Fuel Farm	N/A	AERO-13-187-00/55-555-0137-04	\$ -	\$ 26,393	\$ 34,028	\$ 7,635
<u>STATE FINANCIAL ASSISTANCE</u>						
Tennessee Department of Aeronautics/ Airport Maintenance FY 2011/2012	N/A	99-555-1217-04	-	3,323	3,323	-
Tennessee Department of Aeronautics/ Airport Maintenance FY 2012/2013	N/A	99-555-1228-04	-	7,325	7,325	-
Department of Transportation Aeronautics Division - Runway Maintenance Overlay	N/A	AERO-13-145-11/55-555-0736-04	-	17,900	33,800	15,900
Department of Transportation Aeronautics Division - Fuel Farm	N/A	AERO-13-187-00/55-555-0137-04	-	1,466	1,890	424
TOTAL STATE AWARDS			-	30,014	46,338	16,324
<u>LOCAL MATCH</u>						
Department of Transportation Aeronautics Division - Security Upgrades/Fencing	N/A	Z-08-20-0708-00	5,500	5,500	-	-
Department of Transportation Aeronautics Division	N/A	99-555-1217-04	1,300	202	-	1,098
Department of Transportation Aeronautics Division - Land Acquisition	N/A	Z-07-03-7554-00	57	-	-	57
Department of Transportation Aeronautics Division - Surge Protectors	N/A	Z-07-03-7704-00	284	-	-	284
Department of Transportation Aeronautics Division - Runway Maintenance Overlay	N/A	AERO-13-145-11/55-555-0736-04	-	-	68,750	68,750
Department of Transportation Aeronautics Division - Fuel Farm	N/A	AERO-13-187-00/55-555-0137-04	-	1,466	22,000	20,534
Department of Transportation Aeronautics Division - Box Hangar	N/A	AERO-10-166-00/55-555-0134-04	5,671	5,671	-	-
TOTAL LOCAL MATCH			12,812	12,839	90,750	90,723
TOTAL FEDERAL AWARDS, STATE ASSISTANCE AND LOCAL MATCH			\$ 12,812	\$ 69,247	\$ 171,116	\$ 114,681

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of McNairy County Airport Authority under programs of the federal and state governments for the year ended June 30, 2013. The schedule is presented using the accrual basis of accounting.

The accompanying notes are an integral part of these financial statements.

MCNAIRY COUNTY AIRPORT AUTHORITY
SCHEDULE OF LONG-TERM DEBT
JUNE 30, 2013

Year Ending	Note Payable	
	Principal	Interest
2014	\$ 11,199	\$ 10,016
2015	11,931	8,285
2016	12,710	8,505
2017	13,541	7,675
2018	14,426	6,790
2019	15,368	5,847
2020	16,372	4,843
2021	17,442	3,773
2022	18,582	2,633
2023	19,796	1,419
2024	10,982	230
Total	<u>\$ 162,349</u>	<u>\$ 60,016</u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

McNairy County Airport Authority
Selmer, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the McNairy County Airport Authority (the Authority), a component unit of McNairy County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below as 2011-01 and 2011-02 to be material weaknesses.

2011-01 SEGREGATION OF DUTIES

At present, there is a lack of segregation of duties in receiving and disbursing cash due to the limited number of personnel.

RECOMMENDATION: In order to effectively mitigate this weakness, we recommend that the board closely monitor the financial activities on a timely basis.

MANAGEMENT'S RESPONSE: We concur.

2011-02 FINANCIAL STATEMENTS MATERIALLY MISSTATED

The Authority had materially misstated its financial statements. The Authority had erroneously booked some grant revenues and escrows, capital additions to repairs and maintenance, and failed to book some payables.

Recommendation: We recommend the Authority make the necessary adjustments to reconcile its accounts prior to year end.

Management's Response: We agree and will correct this finding.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described above. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Prior Year Dispositions

None

Johnson & Associates, PLLC

November 12, 2013